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Congressional Committees

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Subject: Export-Import Bank: The U.S. Export-Import Bank's
Financing of Dual-Use Exports

Since October 1994, the Export-Import Bank of the United States has had statutory authority¹ to provide loans and loan guarantees to help finance U.S. exports of defense articles and services, provided that it determines these items are nonlethal and meant primarily for civilian use. These exports, which the Bank refers to as "dual-use" exports, include such items as air traffic control systems that have military applications but will be used mainly for civilian purposes. The Bank is authorized to use up to 10 percent of its total annual export financing authority to support the sale of dual-use exports. This report responds to our statutory mandate to report on the end uses of such dual-use exports supported by the Bank, in order to assure that they have been employed primarily for civilian purposes.

In September 1999, we reported on the Bank's financing and end uses of dual-use exports approved in fiscal year 1997,² as required. That report also summarized dual-use commitments for fiscal years 1998-99. This report provides information regarding the extent of financing and end uses of dual-use exports approved during fiscal year 1998. It also summarizes the commitments to finance dual-use exports made in fiscal years 1999 and 2000 to date. The enclosure to this report lists the specific items, recipients, and amounts of the Bank's dual-use financing for fiscal years 1998-2000.

RESULTS IN BRIEF

In fiscal year 1998, the U.S. Export-Import Bank financed one dual-use export to Indonesia and one dual-use export to Venezuela, using \$9.4 million or less than 1 percent of its financing authority to support dual-use exports. According to Bank officials and documentation, the items have been delivered and are being used primarily for civilian purposes.

¹The Export-Import Bank Reauthorization Act of 1997 (P.L. 105-121, Nov. 26, 1997) extended through 2001 provisions in 1994 legislation (P.L. 103-428, Oct. 31, 1994) authorizing the Bank to finance certain dual-use exports. It also extended through 2001 a provision requiring us to report annually not later than September 1 on dual-use items financed by the Bank during the second preceding fiscal year—which, for the purposes of this report, corresponds to fiscal year 1998.

²See U.S. Export-Import Bank's Financing of Dual-Use Exports (GAO/NSIAD-99-241R, Sept. 1, 1999).

During fiscal year 1999, the Bank committed to finance one dual-use export to Brazil and two such exports to Croatia, using \$153.2 million or less than 10 percent of its financing authority to finance dual-use exports. The items provided by these exports are not currently in use, according to the Bank. In fiscal year 2000 to date, the Bank has authorized the financing of five dual-use exports to Venezuela, using \$31.3 million or 2 percent of its authority to support dual-use exports. According to the Bank, none of the items supported by these five dual-use exports is in use yet.

DUAL-USE EXPORTS FINANCED IN FISCAL YEAR 1998

In fiscal year 1998, the U.S. Export-Import Bank (Eximbank) reported that it financed two dual-use exports totaling \$9.4 million. This amounted to less than 1 percent of the Eximbank's fiscal year 1998 financing authority to support the sale of dual-use exports.³ One of these exports, totaling \$7.7 million, was for the procurement of trucks to be used by Venezuela's Army in civilian construction activities in the country's frontier regions. The other export, totaling \$1.7 million, was for the purchase of aircraft parts to be used in aircraft belonging to the Indonesian Air Force. These aircraft are intended primarily for civilian activities, such as humanitarian aid and relief efforts. According to Eximbank officials, documents, and field visits by these or other U.S. officials, the items provided by the two dual-use exports approved for financing during fiscal year 1998 are being used for primarily civilian purposes.

DUAL-USE EXPORT COMMITMENTS FOR FISCAL YEARS 1999-2000

During fiscal year 1999, the Eximbank reported that it committed to finance three dual-use exports totaling \$153.2 million. This amounted to less than 10 percent of the Eximbank's fiscal year 1999 financing authority to support the sale of dual-use exports.⁴ The first export, totaling \$53 million, was for the refurbishment and the procurement of aircraft to be used by the Brazilian Air Force in support of territorial protection and development. The second export, totaling \$14.6 million, was for the purchase of radar equipment to be used by Croatia's Navy for coastal surveillance. The third export, totaling \$85.6 million, was for the procurement of equipment to be used by Croatia's Air Force for civil air traffic control. None of the dual-use exports items approved for financing during fiscal year 1999 has been delivered, according to Eximbank officials.

So far in fiscal year 2000, the Eximbank reported that it has committed to finance five dual-use exports totaling \$31.3 million.⁵ This amounts to 2 percent of the Eximbank's

³In fiscal year 1998, the Eximbank's 10-percent cap on dual-use financing amounted to \$1,716.4 million.

⁴In fiscal year 1999, the Eximbank's 10-percent cap on dual-use financing amounted to \$1,575.4 million.

⁵On July 12, 2000, the Eximbank postponed approving the financing of two of these dual-use exports, totaling \$21.1 million, to Venezuela because that country had not complied with the Bank's end-use reporting requirements for seven dual-use exports financed in fiscal years 1997 and 1998. On July 28, 2000, Venezuela complied with the end-use reporting requirements. On August 1, 2000, the Eximbank approved the financing of the two pending dual-use exports to Venezuela. The Eximbank made this

fiscal year 2000 financing authority to support the sale of dual-use exports.⁶ The first export, totaling \$1.5 million, is for the procurement of trucks, vans, and buses to be used by the Venezuelan Navy in support of territorial protection and development. The second export, totaling \$2.4 million, is for the purchase of trucks, buses, ambulances, and automobiles to be used by the Venezuelan Navy in support of territorial protection and development. The third export, totaling \$6.3 million, is for the refurbishment of an aircraft to be used by the Venezuelan Air Force in support of territorial development. The fourth export, totaling \$3.5 million, is for the procurement of dump trucks and truck bodies to be used by the Venezuelan Army in support of territorial development. The fifth export, totaling \$17.6 million, is for the purchase of trucks and construction equipment to be used by the Venezuelan Army in support of territorial development. None of the dual-use exports items approved for financing during fiscal year 2000 has been delivered to date, according to Eximbank officials.

AGENCY COMMENTS

We obtained oral comments on a draft of this report from the Eximbank's Vice President of the Engineering and Environment Division, which is responsible for monitoring end-user compliance with dual-use requirements. He noted that the Eximbank generally agreed with the information presented in this report.

SCOPE AND METHODOLOGY

To determine the end uses of the items provided by the dual-use exports financed in fiscal year 1998 and to identify the extent of Eximbank financing of dual-use exports in fiscal years 1999 and 2000, we reviewed pertinent Eximbank documents, such as memorandums to the Board of Directors and engineering reports and evaluations regarding actual use of export items. We also interviewed Eximbank officials who monitor end-user compliance with dual-use requirements, including the Vice President of the Engineering and Environment Division. We did not independently verify the end use of these products.

We conducted our work during July and August 2000 in accordance with generally accepted government auditing standards.

We are sending copies of this report to interested congressional Committees. We will also send copies to James A. Harmon, the Chairman and President of the Eximbank; the Honorable William S. Cohen, the Secretary of Defense; and the Honorable

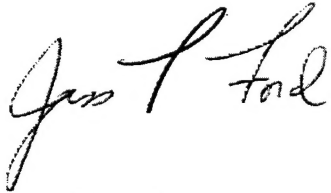
decision based on the end-use reports submitted by Venezuela and other information indicating that the dual-use exports delivered to Venezuela were being used primarily for civilian purposes.

⁶ For fiscal year 2000, the Eximbank's 10-percent cap on dual-use financing amounts to \$1,550 million, according to Eximbank officials.

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Madeleine K. Albright, the Secretary of State. We will also make copies available to others upon request.

Please contact me on (202) 512-4128 if you have any questions concerning this letter. The major contributors to this letter were Virginia C. Hughes and Juan F. Tapia-Videla.

A handwritten signature in black ink, appearing to read "Jess T. Ford". The signature is fluid and cursive, with the first name "Jess" and last name "Ford" clearly distinguishable.

Jess T. Ford
Associate Director,
International Relations and Trade Issues

List of Recipients

The Honorable Phil Gramm
Chairman
The Honorable Paul S. Sarbanes
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Ted Stevens
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The Honorable C.W. Bill Young
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The Honorable David R. Obey
Ranking Member
Committee on Appropriations
House of Representatives

DUAL-USE EXPORTS FINANCED BY
THE U.S. EXPORT-IMPORT BANK (EXIMBANK), FISCAL YEARS 1998-2000

Dollars in millions

| Fiscal year | Recipient country | Export ID number/type of Eximbank financing/ description of export item | Amount of Eximbank financing | End user | Intended end use/status |
|-------------------|-------------------|-------------------------------------------------------------------------|------------------------------|----------------------|---------------------------------------|
| 1998 | Venezuela | APO73274XX /guarantee/ trucks | \$7.7 | Venezuelan Army | Territorial development/ in use |
| | Indonesia | APO69837XX /loan/aircraft parts | 1.7 | Indonesian Air Force | Relief efforts/ in use |
| 1999 ^a | Brazil | APO67303XX /loan/ aircraft and aircraft components | 53.0 | Brazilian Air Force | Territorial development/ not in use |
| | Croatia | APO74581XX /loan/radars | 14.6 | Croatian Navy | Coastal surveillance/ not in use |
| | Croatia | APO73528XX /guarantee/ radars | 85.6 | Croatian Air Force | Civil air traffic control/ not in use |
| 2000 ^b | Venezuela | APO74654XX /guarantee/ vehicles | 1.5 | Venezuelan Navy | Territorial development/ not in use |
| | Venezuela | APO74918XX /guarantee/ vehicles | 2.4 | Venezuelan Navy | Territorial development/ not in use |
| | Venezuela | APO73839XX /guarantee/ aircraft parts | 6.3 | Venezuelan Air Force | Territorial development/ not in use |
| | Venezuela | APO76105XX /guarantee/ trucks | 3.5 | Venezuelan Army | Territorial development/ not in use |
| | Venezuela | APO75942XX /guarantee/ trucks and construction equipment | 17.6 | Venezuelan Army | Territorial development/ not in use |

^aCommitments.

^bCommitments.

Source: GAO analysis of Eximbank data.

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